

# Fixed Income opportunities and how to exploit them

Colin Finlayson  
Portfolio Manager



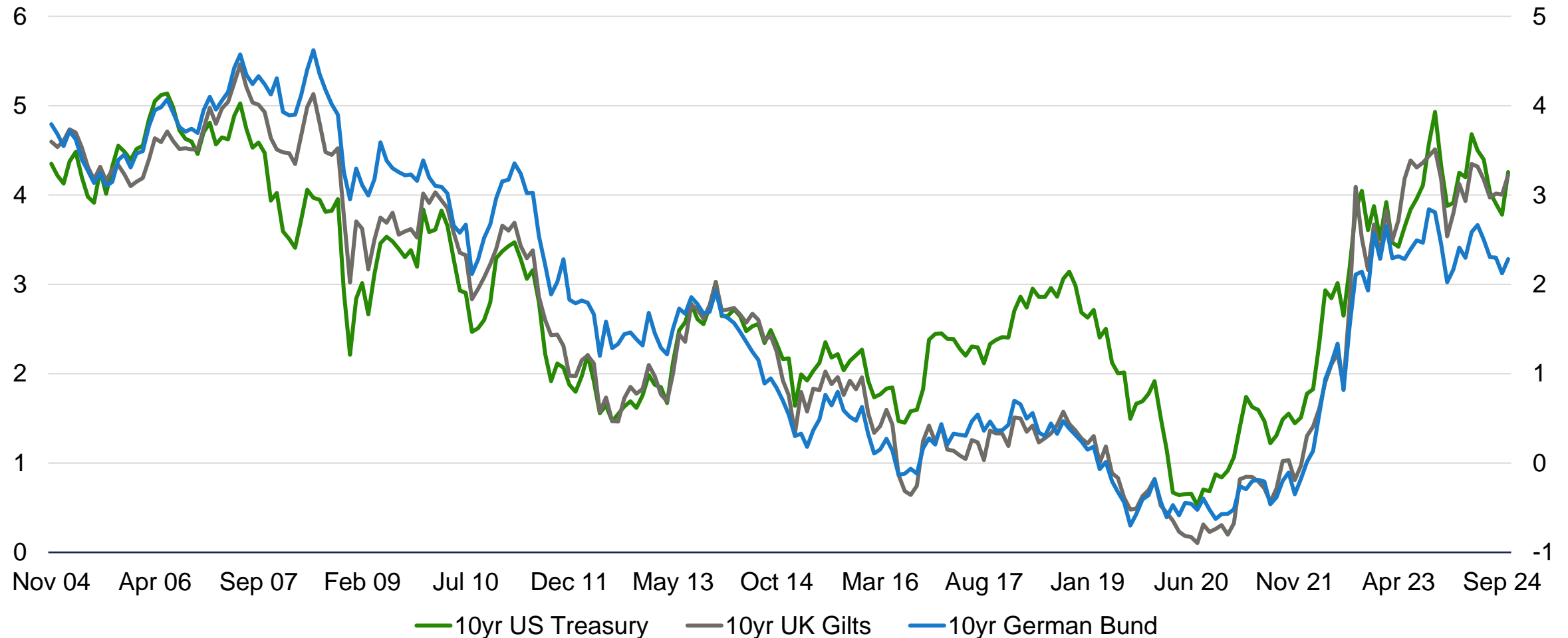
For professional / qualified investors.  
This is a marketing communication.



# Bonds - One year on from “teetering on the edge”

Inflation & Rate hikes led to higher yields and the return of income from bonds

## Core Markets – 10yr Government Bond Yields



\* Source: Aegon AM as at 30 September 2024

# Bond maths – Government Bonds

Attractive total return potential

## Yield on US 5yr government bond



## One-year breakeven calculator

- ↑ Yield rises to **5.20%** – total return of **0%**
- ↔ Yield remains at **4.25%** – total return of **4.25%**
- ↓ Yield drops to **3.30%** – total return of **8.50%**

For illustrative purposes only. Not indicative of the past or future performance of any Aegon AM product or investment strategy.  
Source: Bloomberg as at 30 September 2024

# Bond maths – Corporate Bonds

Attractive total return potential

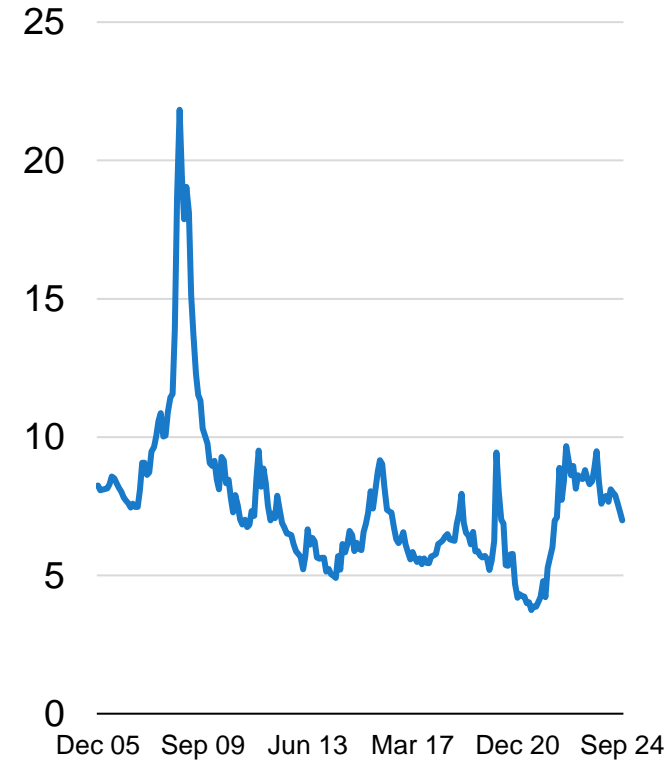
## US Investment Grade index – YTM (%)



### Breakeven calculator

- ↑ Yield rises > 100 bps for negative total return
- ↔ Yield flat = 5% return
- ↓ Yield falls 100 bps for >11% return

## US High Yield index – YTM (%)



### Breakeven calculator

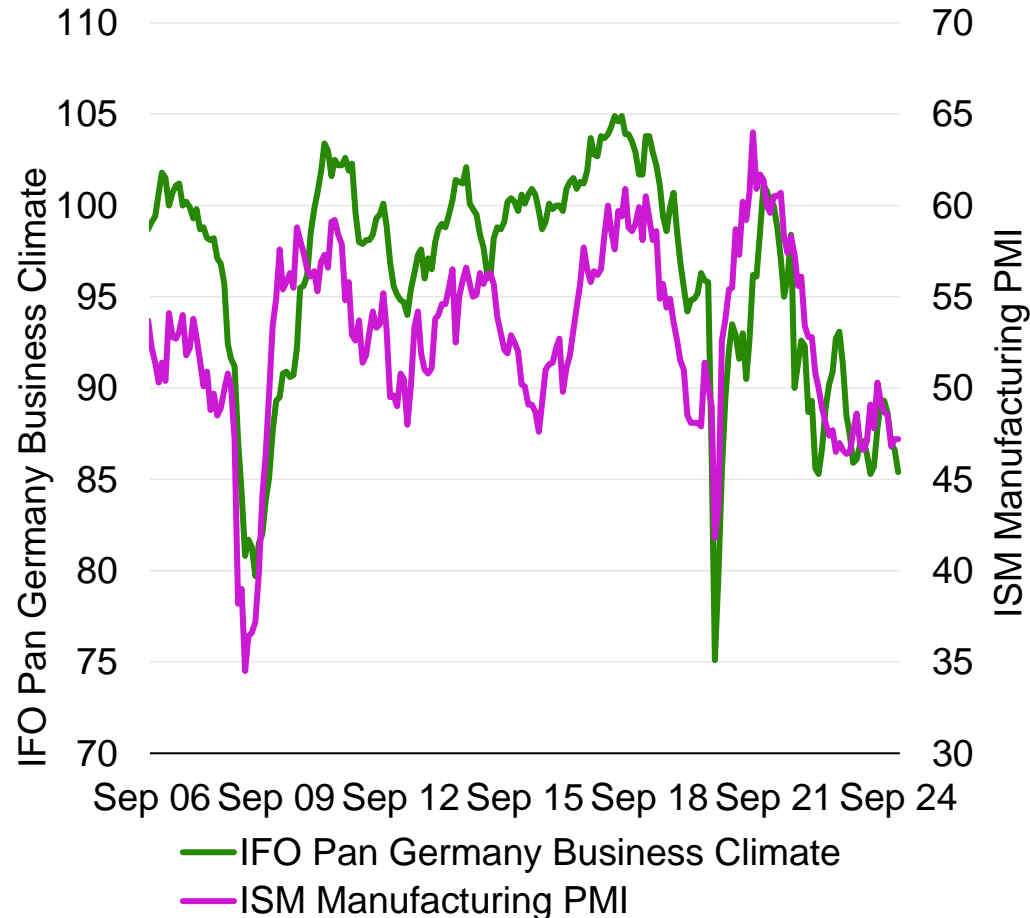
- ↑ Yield rises > 300 bps to 11% for negative total return
- ↔ Yield flat = 7.4% return
- ↓ Yield falls 100 bps to 6.4% for 11% return

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Source: Bloomberg as at 30 September 2024. The graphs represent data from the Bloomberg US Corporate Total Return Value Unhedged USD Index and the Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD Index.

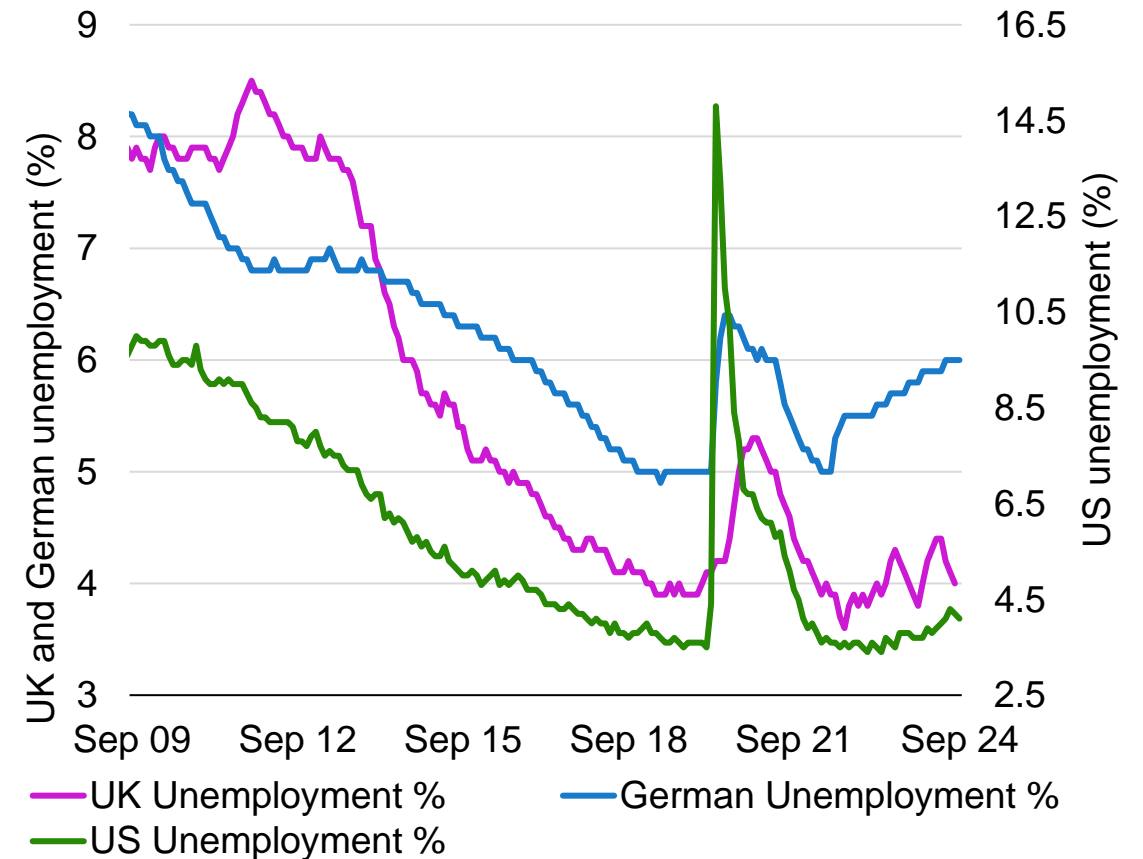
# Macroeconomic and market backdrop

Economic indicators have slowed, with labour markets cooling but not cracking

## US and German Business Confidence



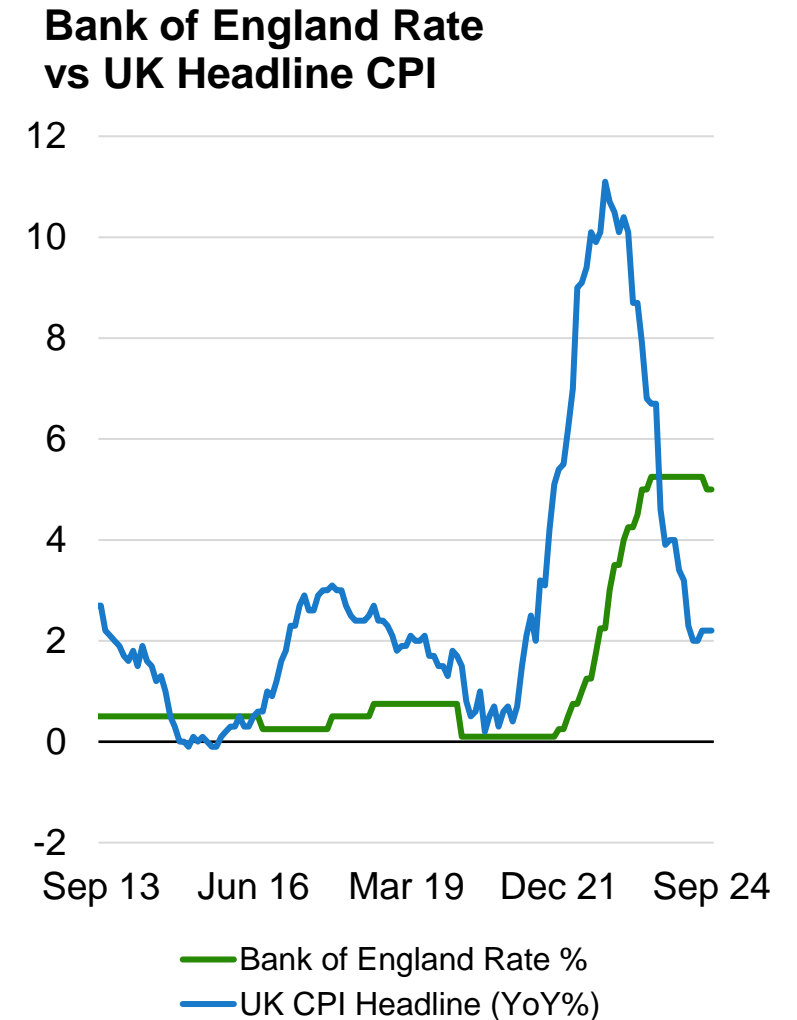
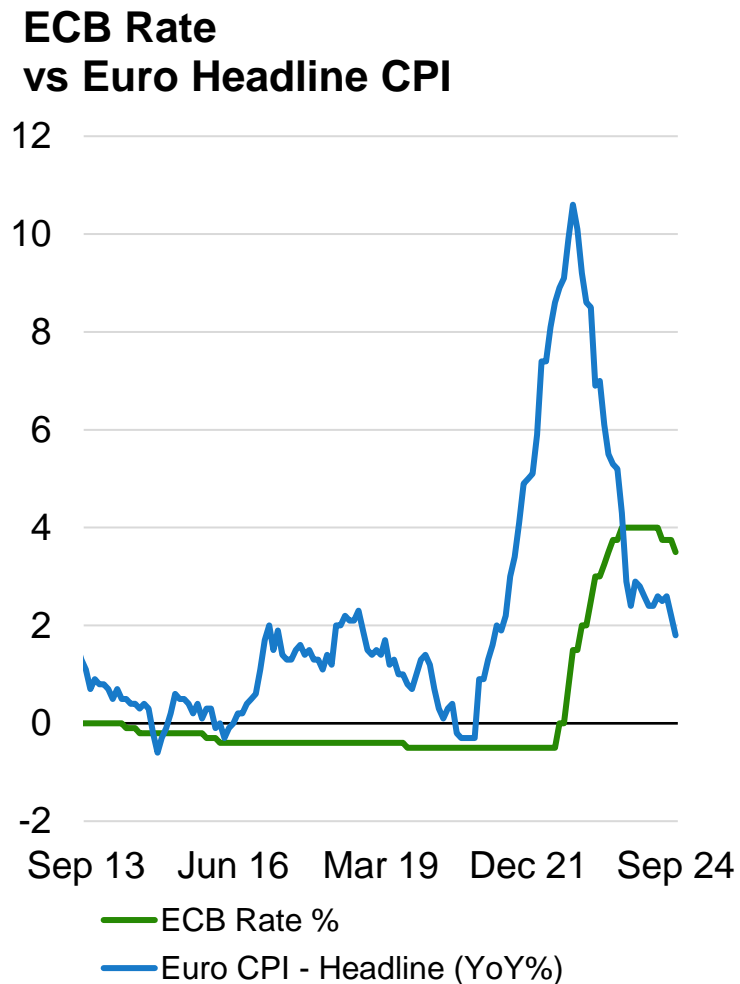
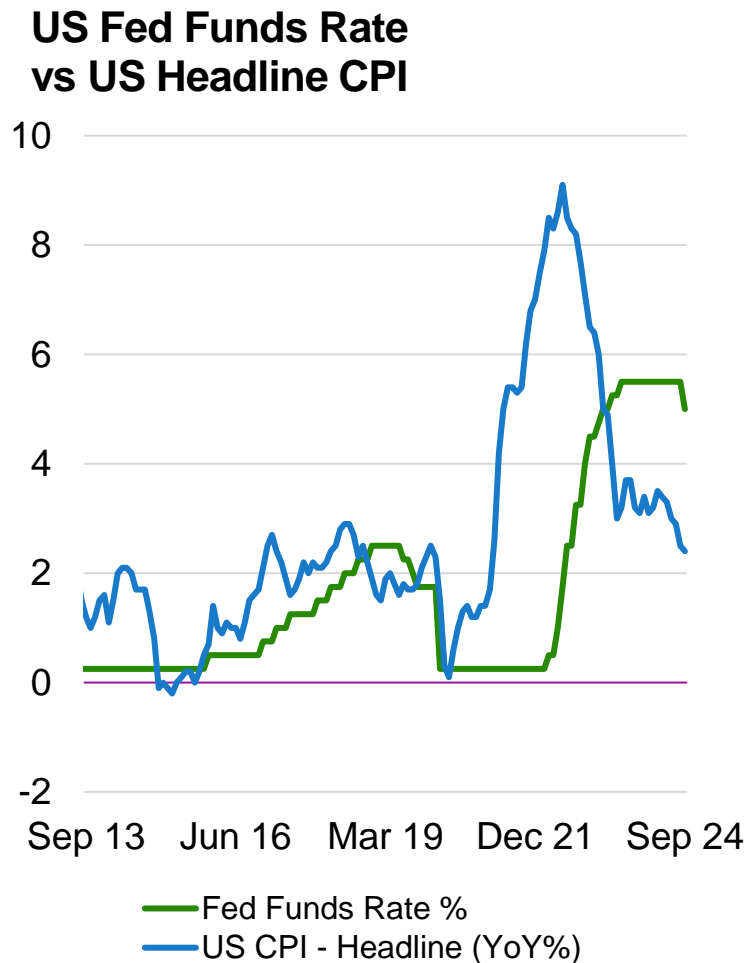
## Unemployment Rates – US, UK\*, Germany



Source: Bloomberg, as at 30 September 2024. \* As at 31 August 2024

# Easing cycle underway and supportive for bonds

Inflation has moved back closer to target

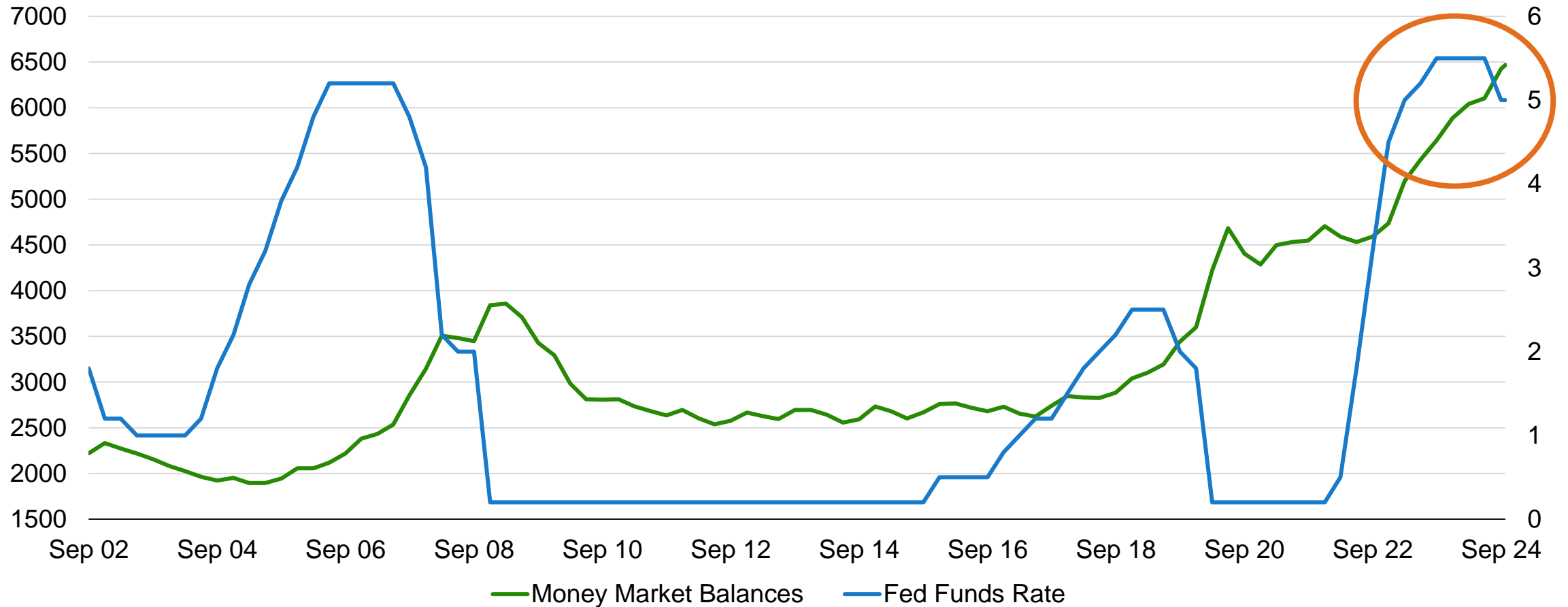


Source: Bloomberg, as at 30 September 2024

# Record holdings in money markets – technical tailwind

Offers support for bonds as interest rates fall

US Money Market Fund assets vs Fed Funds Rate



Source: Aegon AM as at 30 September 2024



# Attractive opportunity...but risks still remain

How to best overcome the uncertainty?

Key risks facing bond investors

- Macroeconomic, Geopolitical, Fiscal & Deficit funding

How can you best access the opportunities in Fixed Income Markets?

Answer: Active and flexible approach to exploit the opportunities:

- Broad market exposure – Aegon Strategic Bond
- Cash alternative – Aegon Absolute Return Bond



# Aegon Strategic Bond Fund


Designed to provide investors with a 'through-the-cycle' exposure to fixed income markets

## Differentiated investment approach

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 High conviction, concentrated - does not follow benchmark

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 Genuinely flexible

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 No style bias

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## Desired investment outcomes

Seeking superior returns from fixed income markets

Low correlation to equity markets' returns

# What does flexibility mean? - Opportunity set

Flexible Fixed Income strategy with clear remit

Core investments	
Government Bonds	0 – 100%
Investment Grade Corporate Bonds	0 – 100%
High Yield Bonds	0 – 40% (combined limit)

Opportunistic	
Emerging Market Bonds	0 – 40% (combined limit)
Asset Backed Securities	0 – 40% (combined limit)

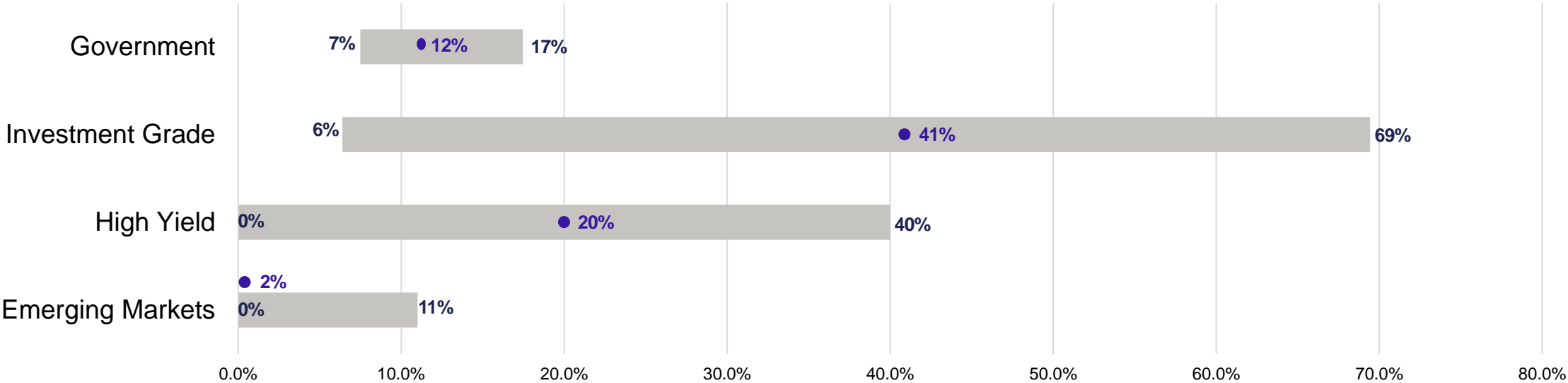
Derivatives	
Interest Rate futures	
Credit Derivatives	

- Liquid, listed assets only
- Exposed only to fixed income markets (no FX, equity, private placements)
- Flexible interest rate risk (0-10 years)
- Fully hedged to base currency

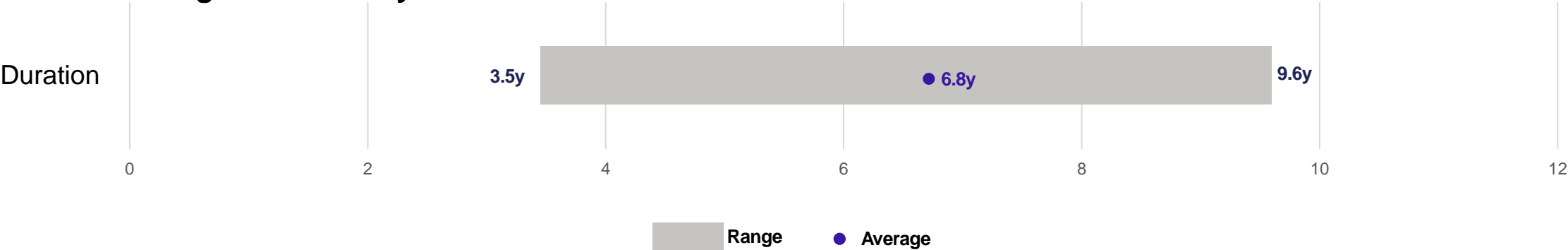
Asset allocation limits shown reflect internal limits and may be lower than actual limits allowed. Up to 50% of the Fund may not be 'hedged' i.e. the Fund is exposed to the risks of investing in another currency for this portion. The Portfolio Management team however will aim to hedge the portfolio back to the base currency of the strategy as far as practicably possible.

# What does flexibility mean? – Opportunity set

Asset Allocation range over last 5 years



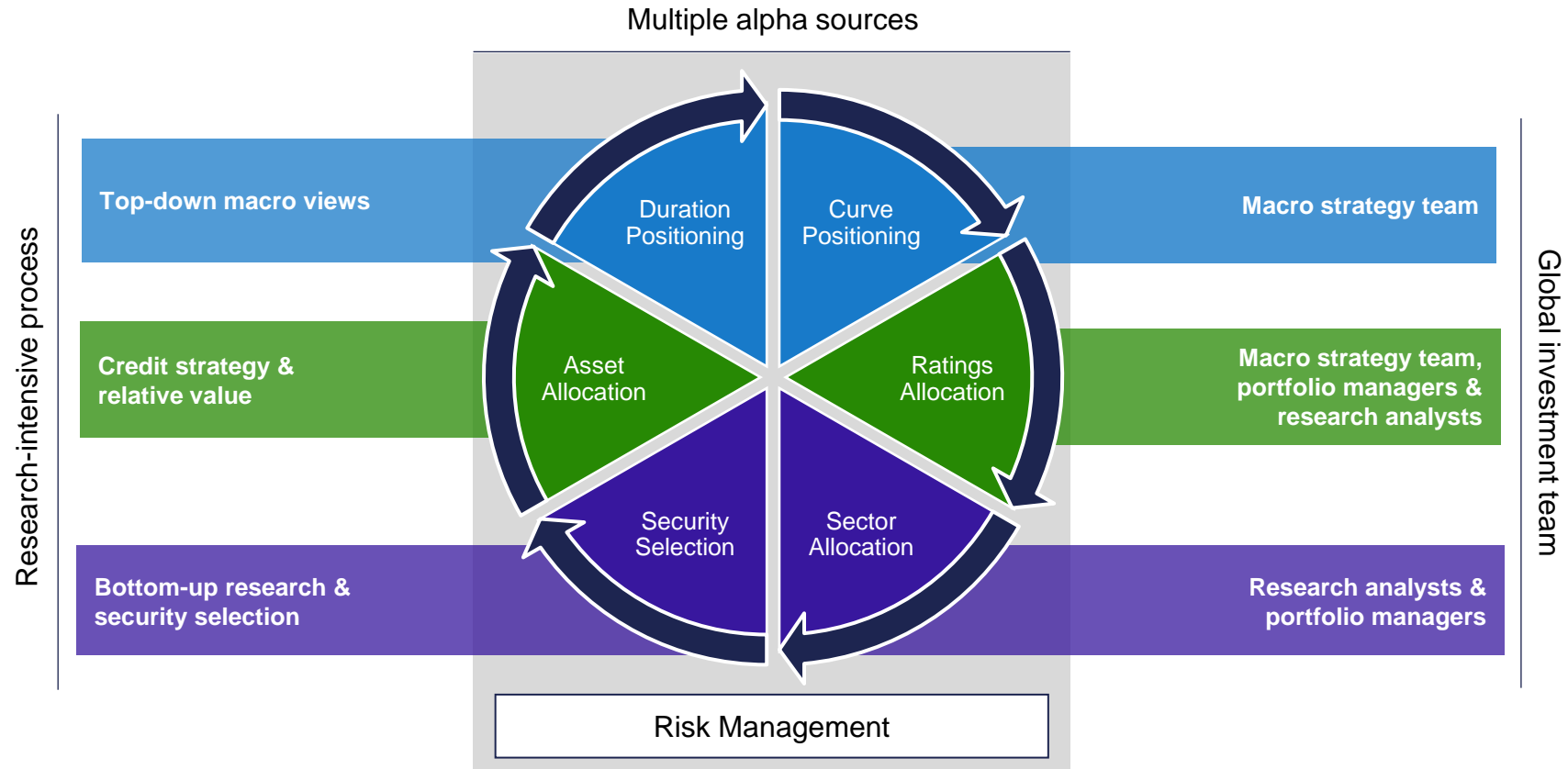
Duration risk range over last 5 years



Source: Aegon AM as at 30 September 2024

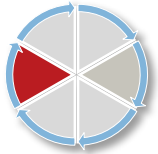
# What does flexibility mean? – Alpha sources

Marriage of top-down and bottom-up drivers



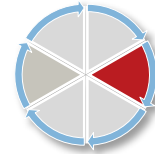
# What does flexibility mean? – Alpha sources

Utilise multiple sources of alpha to generate returns



## Asset allocation

- Preference for corporate bonds over government bonds
- Investment grade favoured on a risk adjusted basis



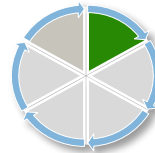
## Credit risk allocation

- Tilted towards higher quality in IG
- Continue to like HY but with reduced beta
- Looking for opportunities in emerging market debt



## Duration positioning

- Overweight duration vs historical average
- Favour US, UK and European interest rates
- Tactical long positions in Italy and New Zealand



## Yield curve positioning

- Preference for shorter dated bonds
- Expecting steeper yield curves in US and UK



## Sector selection

- Investment grade Euro financials vs. non-financials
- Real Estate (REITs) offer attractive opportunities



## Security selection

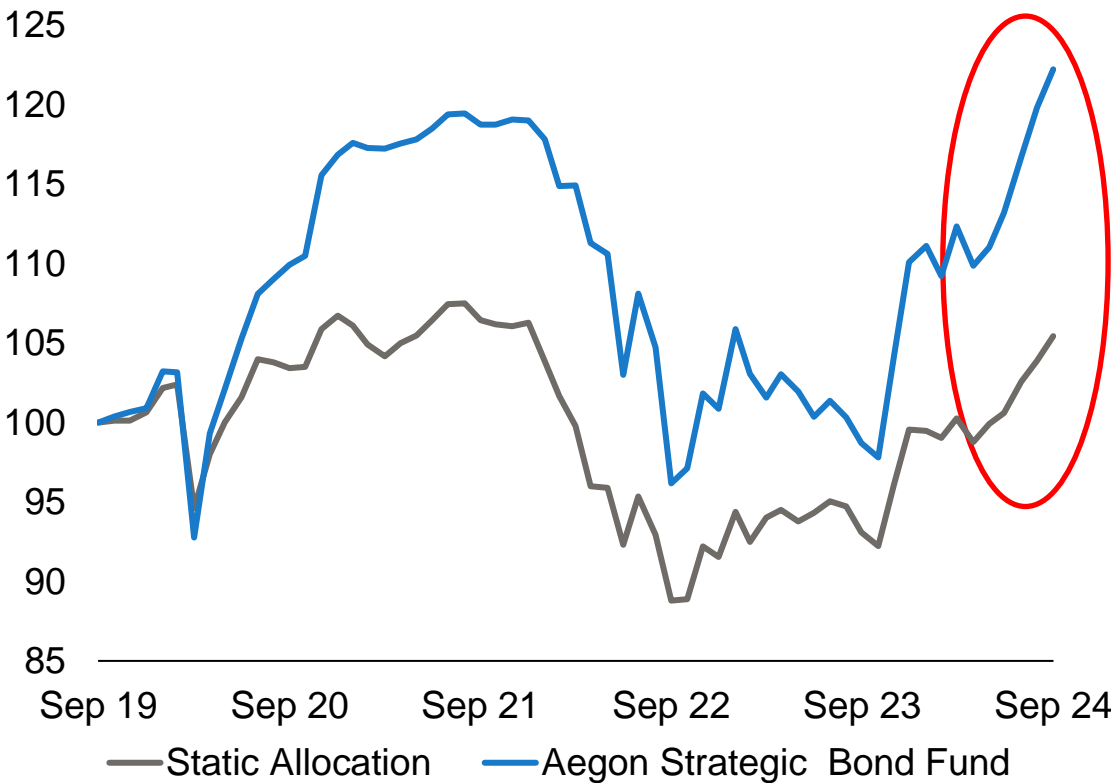
- Continuation of careful security selection
- Favour companies with strong balance sheets

# Flexible allocation outweighs a static approach

## Compelling outperformance vs. static allocation

Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.

### AAM Strategic Bond vs Static Allocation

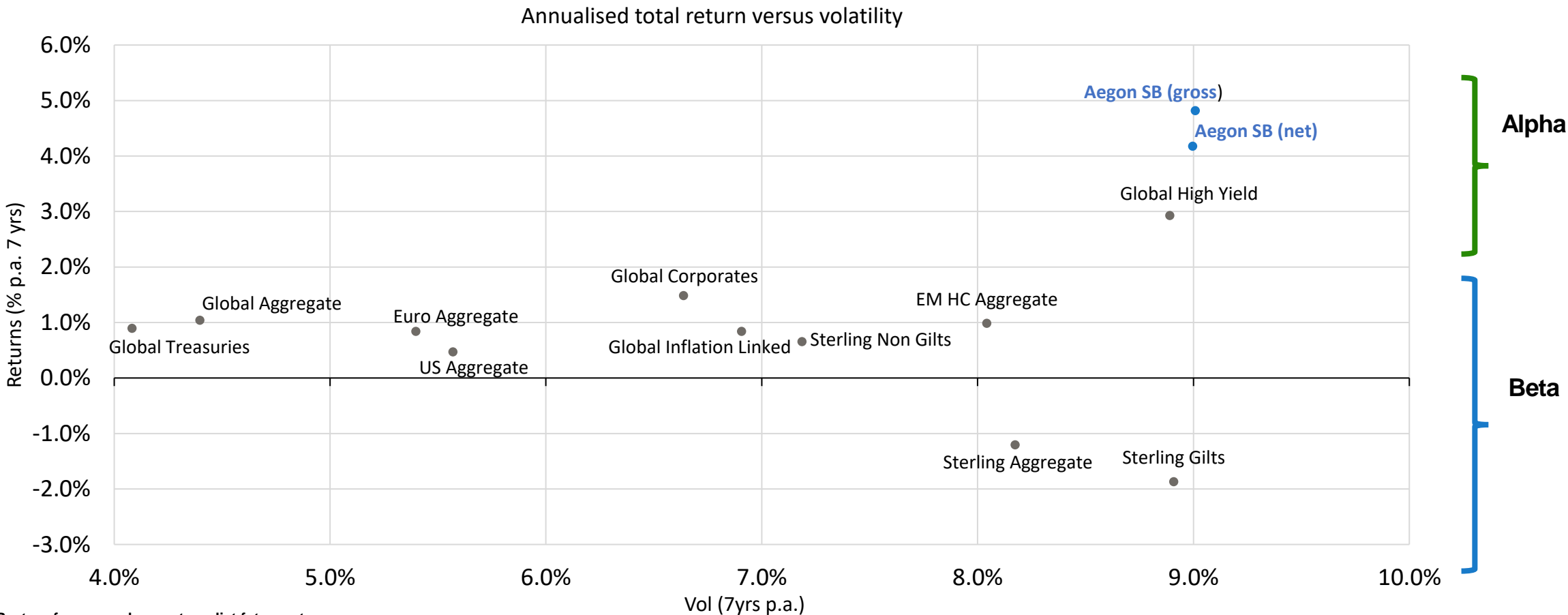


	Static Allocation Portfolio	AAM Strategic Bond Fund	Ratio: AAM Strat/Static Portfolio
Annualised Return	1.1%	4.1%	3.9
Cumulative Return	5.4%	22.2%	4.1
Annualised Volatility	7.2%	10.5%	1.5
Total Return/Volatility	0.15	0.39	2.6

Source: Aegon AM, Bloomberg, as at 30 September 2024. 5 year cumulative total returns are based on AAM Strategic Bond Fund (B Acc GBP), net of fees.

# Risk return profile - Aegon Strategic Bond

## 7yr annualised total return vs standard deviation



Past performance does not predict future returns.

Source: Aegon AM, Bloomberg, as at 30 September 2024. 7 year cumulative total returns are hedged in GBP, gross of fees. Reflects annualized total return and standard deviation (volatility) over a 7 year period to 31 December 2023. Based on daily returns hedged to USD. Includes the following Bloomberg indices; Global Aggregate TR Hedged to GBP Index for 'Global Aggregate'; Global Treasury Total Return Index Value Hedged GBP for 'Global Treasuries'; Global Inflation-Linked Total Return Index Value Hedged GBP for 'Global Inflation Linked'; Global Aggregate Corporate Total Return Index Hedged GBP for 'Global Corporates'; Global High Yield Total Return Index Value Hedged GBP for 'Global High Yield'; EM Hard Currency Aggregate Total Return Index Hedged GBP for 'EM HC Aggregate'; US Aggregate Credit Total Return Value Hedged GBP for 'US Aggregate'; Euro Aggregate Corporate Total Return Index Value Hedged GBP for 'Euro Aggregate'; Sterling Aggregate Return Value Unhedged GBP for 'Sterling Aggregate'; Sterling Gilts Total Return Index Value Unhedged GBP for 'Sterling Gilts'; Sterling Non-Gilts TR Value Unhedged GBP for 'Sterling Non-Gilts'.



# Now is the time for a cash alternative

## What can the Aegon Absolute Return bond fund offer you?

- Fund with a Cash Plus target (Cash +2%) and a 13yr track record
- Invests predominately in short dated corporate bonds – with risk actively managed
- Returns blended with relative value opportunities – Credit and Rates
- Downside risk management and capital preservation at its core
- Offer daily liquidity – even during stressed market conditions
- Risk adjusted returns that are superior vs similar investment options
- Low correlation with broader market returns – offers diversification

# Building a diverse and resilient portfolio

## Absolute Return Bond Fund

### Core components

#### Short Duration Corporate Bonds

Core invested in diversified collection of short-dated and high-quality corporate bonds

### Example trades



#### Actively Hedged Corporate Bonds

Diversified collection of Global Corporate Bonds with active management of credit and interest rate risk

nationalgrid vs HOLCIM



#### Credit and Rates relative value opportunities

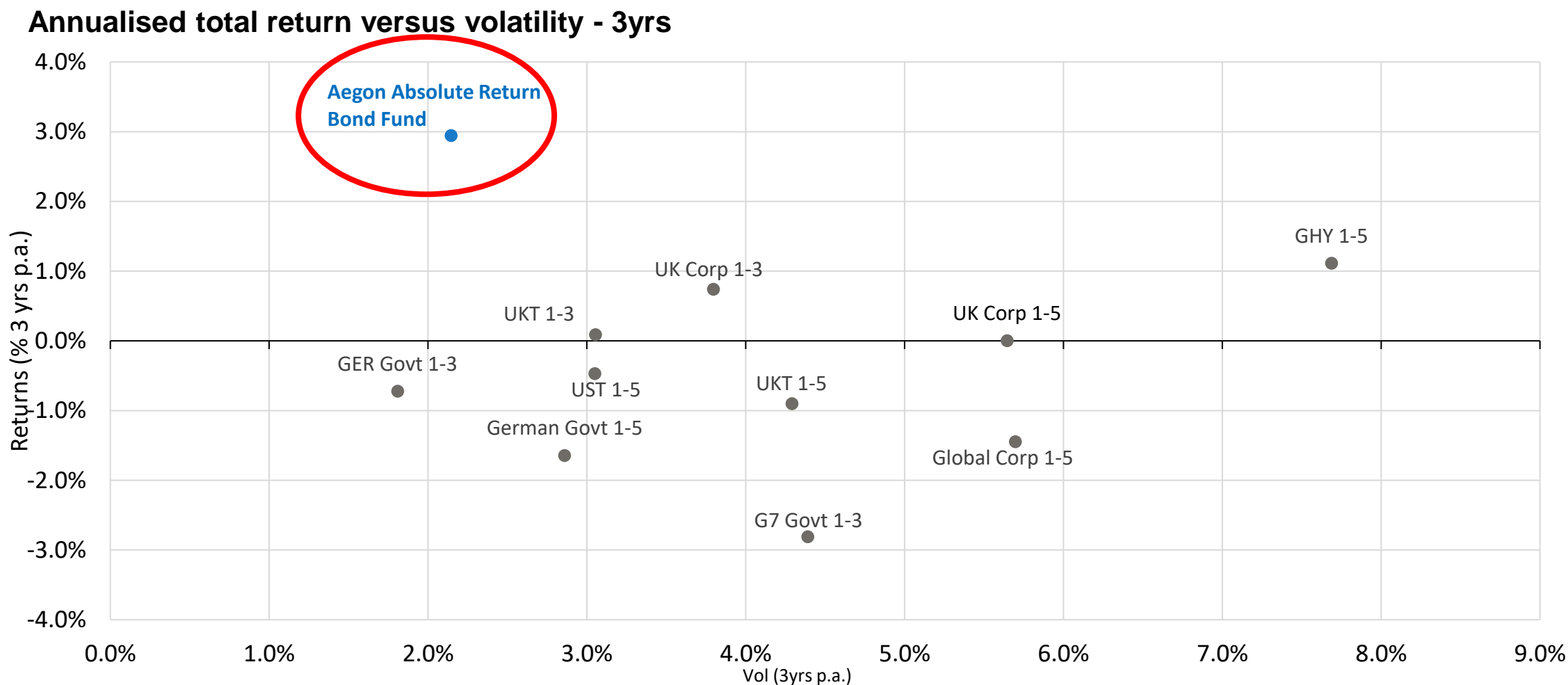
Relative value pair trades to exploit range of stock, sector and cross market opportunities



### Key characteristics

- 179 Holdings
- Average credit rating BBB
- Yield to Worst 4.3% (€)
- Duration 2 years
- Spread duration 1.3 years

# Attractive risk-adjusted returns vs cash alternatives



Source: Aegon AM, Bloomberg, as at 31 July 2024. Reflects annualized total return and standard deviation (volatility) over a 3 year period. Based on daily returns. Aegon Absolute Return Bond Fund B (Acc) GBP shares for 'AARB' and the following indices in local currency: ICE BofA 1-5 Year German Government 'GER Govt 1-5'; ICE BofA 1-3 Year German Government for 'GER Govt 1-3'; ICE BofA 1-5 Year UK Gilt for 'UKT 1-5'; ICE BofA 1-5 Year US Treasury for 'UST 1-5'; ICE BofA 1-5 Year Global Corporate for 'Global Corp 1-5'; ICE BofA 1-3 Year G7 Government (USD) for 'G7 Govt 1-3'; ICE BofA 1-5 Year Sterling Corporate for 'UK Corp 1-5'; ICE BofA 1-3 Year UK Gilt for 'UKT 1-3'; ICE BofA 1-3 Year Sterling Corporate 'UK Corp 1-3'; Bloomberg Global High Yield (USD) for 'GHY 1-5'.

# Low correlation with broader market returns

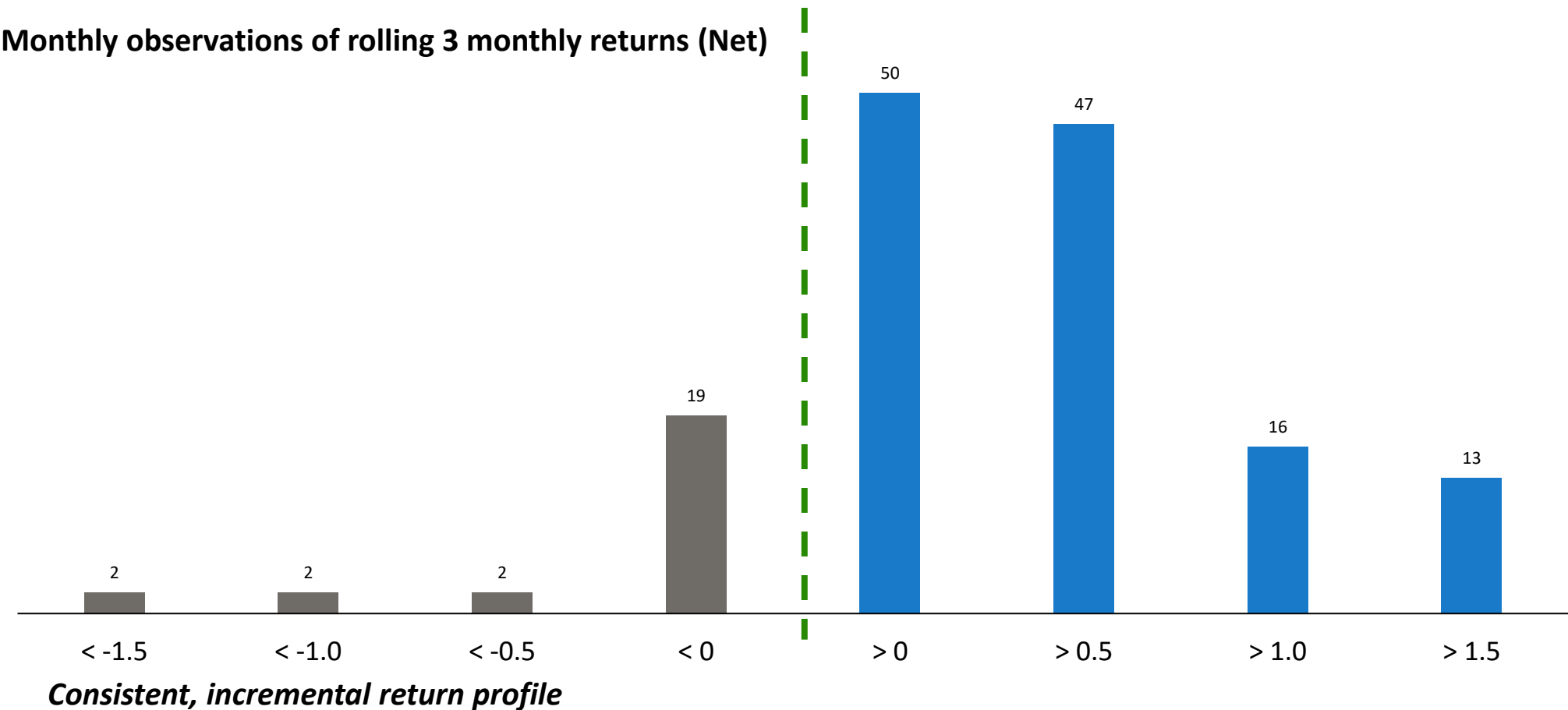
## Correlation vs asset classes since launch

Component		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Aegon ARB	1.00												
2	Global Equities	0.05	1.00											
3	US Equities	0.03	0.96	1.00										
4	Global Agg	0.09	-0.04	-0.04	1.00									
5	Treasuries	0.06	-0.11	-0.09	0.79	1.00								
6	Global Inflation Linked	0.06	-0.03	-0.02	0.79	0.79	1.00							
7	Global Investment Grade	0.14	0.06	0.04	0.92	0.82	0.70	1.00						
8	Global High Yield	0.22	0.61	0.51	0.27	0.15	0.21	0.46	1.00					
9	EM HC Agg	0.19	0.41	0.33	0.56	0.45	0.43	0.68	0.85	1.00				
10	US Aggregate	0.07	-0.07	-0.07	0.93	0.84	0.68	0.93	0.24	0.53	1.00			
11	Sterling Aggregate	0.06	-0.11	-0.09	0.75	0.79	0.84	0.63	0.10	0.33	0.59	1.00		
12	Euro Aggregate	0.07	0.07	0.07	0.80	0.84	0.67	0.67	0.28	0.46	0.58	0.67	1.00	
13	Sterling Gilts	0.05	-0.14	-0.11	0.74	0.78	0.83	0.61	0.05	0.30	0.58	1.00	0.65	1.00

Source: Aegon AM, Bloomberg, as at 31 July 2024. Correlations shown in the table are based on daily returns of Bloomberg indices (in local currency) against Aegon Absolute Return Bond Fund B (Acc) GBP shares, net of fees. Launch 30 September 2011.

# Consistency of returns over long run

Past performance does not predict future returns.



Source: Lipper as at 30 June 2024. NAV to NAV, noon prices, income reinvested, excluding entry or exit charges. Aegon Absolute Return Bond Fund B (Acc) GBP shares. Returns are net.

# Bonds are back... but flexibility is key

Yields are elevated – offering protection and return potential



Macro backdrop supports outlook for fixed income



Uncertainty and evolving cycle requires flexible approach



Aegon Strategic Bond Fund proves core exposure to bonds



Aegon Absolute Return Bond offers cash alternative



There is no guarantee these investment or portfolio strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest over the long-term, especially during periods of increased market volatility.



We hope you enjoyed the presentation.

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# Appendix

# Fund Overview

A dynamic blend of the fixed income universe targeting superior risk adjusted total return

<b>Portfolio managers</b>	Alexander Pelteshki and Colin Finlayson
<b>Inception date</b>	16 December 2003
<b>Performance objective</b>	To provide a combination of income and capital growth over any seven year period
<b>Peer group</b>	Investment Association £ Strategic Bond Median
<b>Reference index</b>	Bloomberg Global Aggregate index (GBP hedged)
<b>Number of issues</b>	113 (bonds only)
<b>Fund size</b>	£346m
<b>Strategy size</b>	£491m

## Objective

Generate income and capital over seven years

## Style

Unconstrained, liquid Global Fixed Income



**Alexander Pelteshki**  
Co-manager



**Colin Finlayson**  
Co-manager

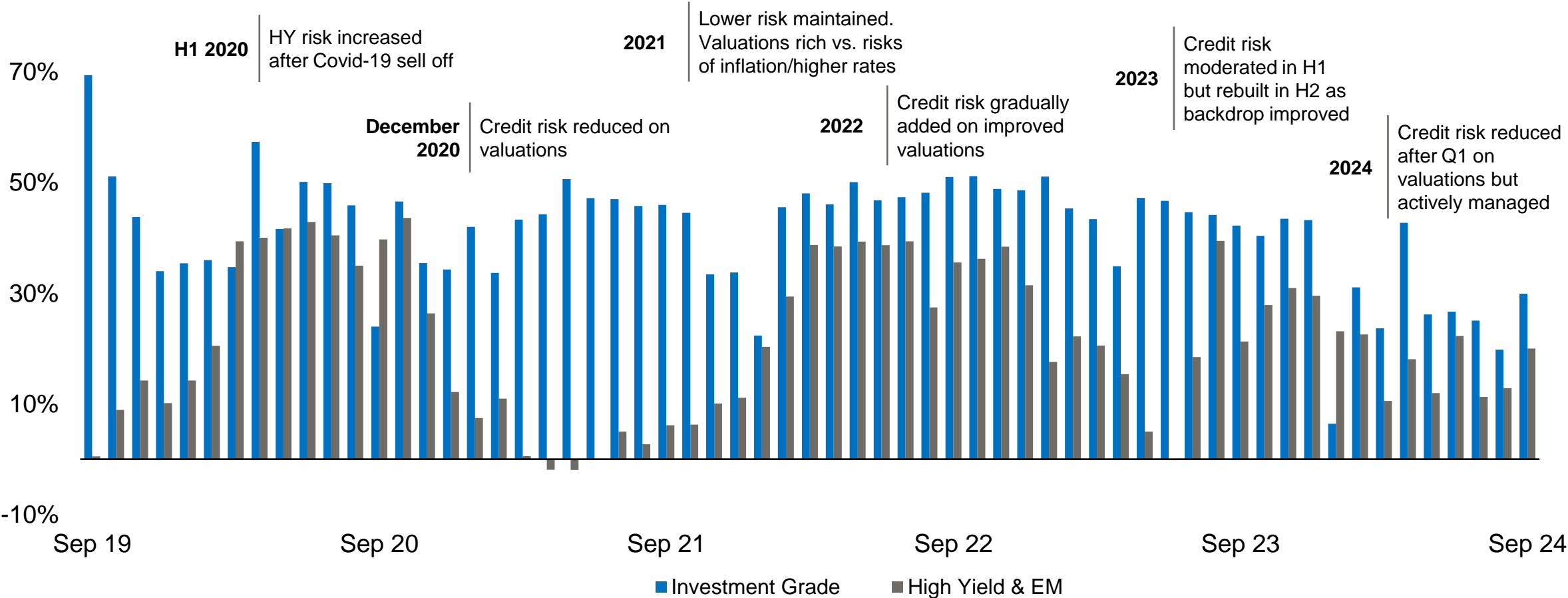
- Dedicated portfolio management team with over 30 years, combined experience across asset classes and through market cycles
- Highly complementary skill-sets
- Demonstrable risk-adjusted outperformance record



As at 30 September 2024.

# Dynamic credit risk management

## Historical credit exposure breakdown

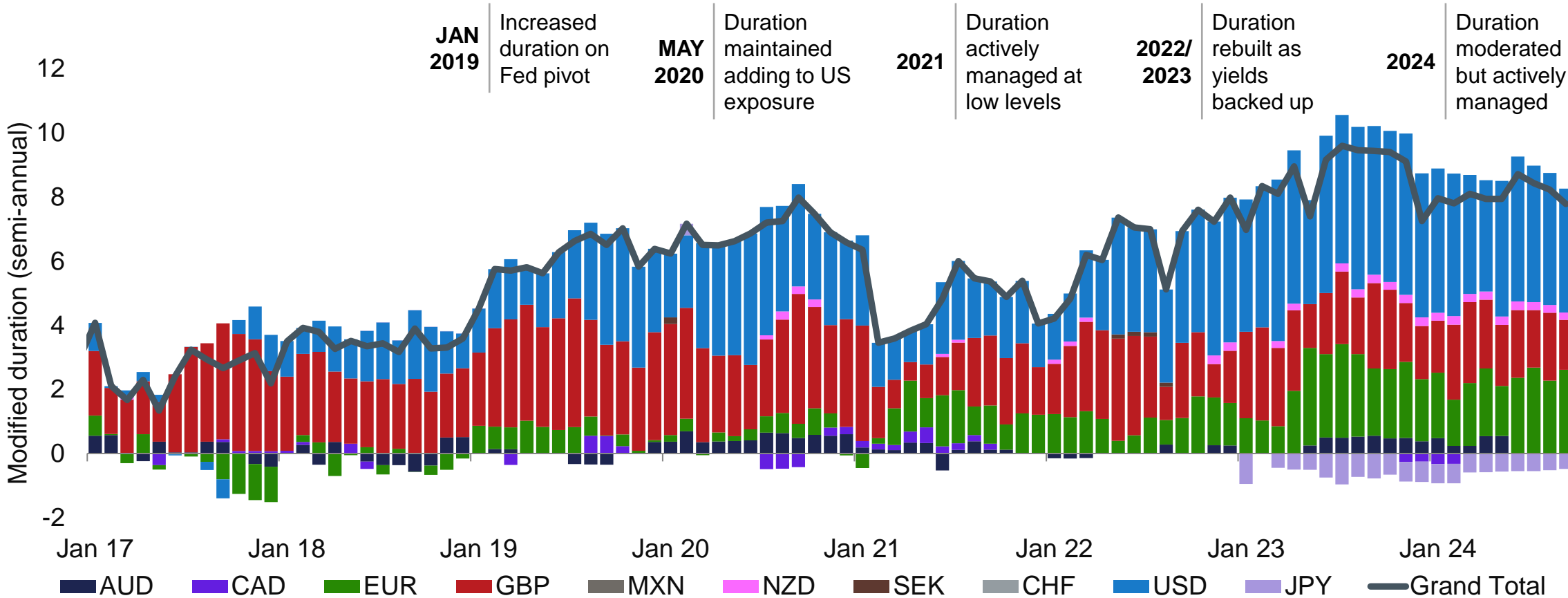


As of September 30, 2024. Holdings and allocations are subject to change and are not recommendations to buy or sell a security.

# Portfolio construction – Duration and yield curve

## Historical duration exposure

### Duration by currency bloc



Source: Aegon AM as at 30 September 2024

# Portfolio construction – Sector and security selection

Heavy emphasis on bottom-up stock selection



## Credit research & Sector specialists

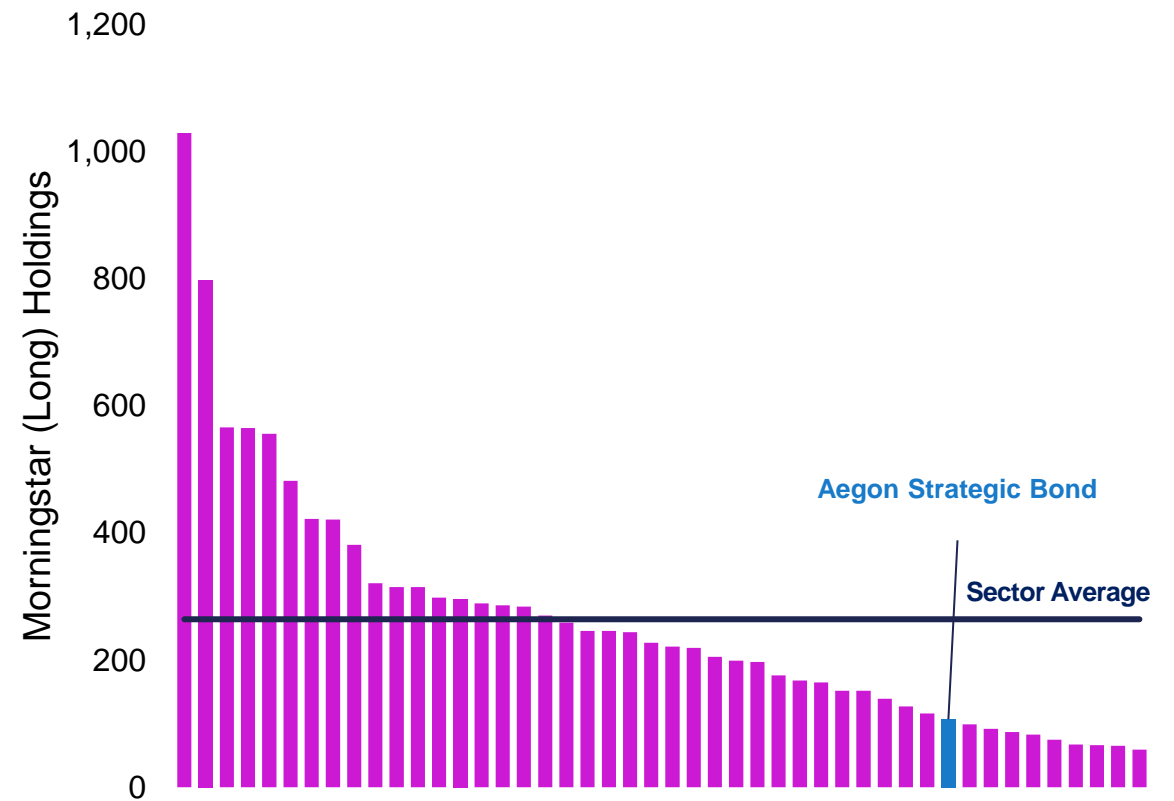
- Deep in-house credit research capability
- Regular and Ad Hoc research production and financial modelling
- Industry and thematic sector research reports

## Portfolio Managers

- Relative value and technical views contribution
- Cross currency and yield curve positioning inputs



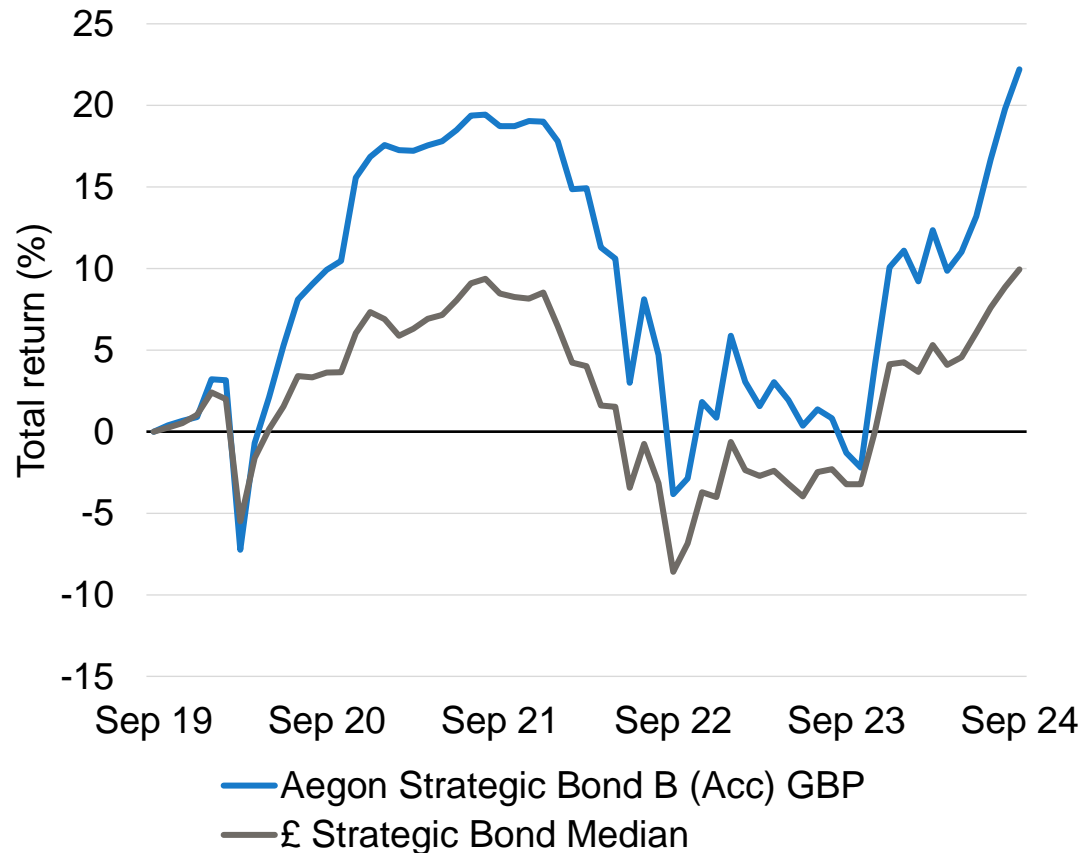
## High conviction implementation



# Delivering strong risk-adjusted outperformance

Compelling outperformance versus peer group

## 5 year cumulative total returns



%	Aegon Strategic Bond Fund	Sector median	Quartile
1 Year	23.8%	12.3%	1
3 Years p.a.	1.0%	0.6%	2
5 Years p.a.	4.1%	1.9%	1
7 Years p.a.	4.2%	2.2%	1
Since launch p.a.	4.7%	4.0%	2

Calendar year	Aegon Strategic Bond Fund	Sector median	Quartile
2020	15.8	6.2	1
2021	1.8	0.7	2
2022	-15.2	-11.8	3
2023	9.4	8.4	2
2020	15.8	6.2	1

**Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.** Source: Lipper as at 30 September 2024. Aegon Strategic Bond Fund B (Acc) GBP share class, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges, net of 20% income tax in periods before 6 April 2017. Inception: 16 December 2003. Sector median: Investment Association £ Strategic Bond median. Periods over one year are annualised. Any differences are due to rounding.

# Aegon Absolute Return Bond Fund

Positive returns, low volatility and uncorrelated to underlying markets

<b>Portfolio managers</b>	Colin Finlayson, Rory Sandilands, James Lynch and Alexander Pelteshki
<b>Inception date</b>	30 September 2011
<b>Investment objective</b>	To generate positive absolute returns for investors over rolling 3-year periods
<b>Performance target</b>	3-month GBP SONIA +2-3% p.a. net of fees over rolling 3 years
<b>Strategy AuM</b>	£488m

<b>Performance drivers</b>	Invest only in fixed income related assets Returns via multiple sources of alpha derived from: <ul style="list-style-type: none"><li>- Rates: duration neutral relative value</li><li>- Credit: market neutral sector and security selection</li></ul> No active currency risk
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**Colin Finlayson**  
Co-manager



**Rory Sandilands**  
Co-manager



**James Lynch**  
Support manager



**Alexander Pelteshki**  
Support manager

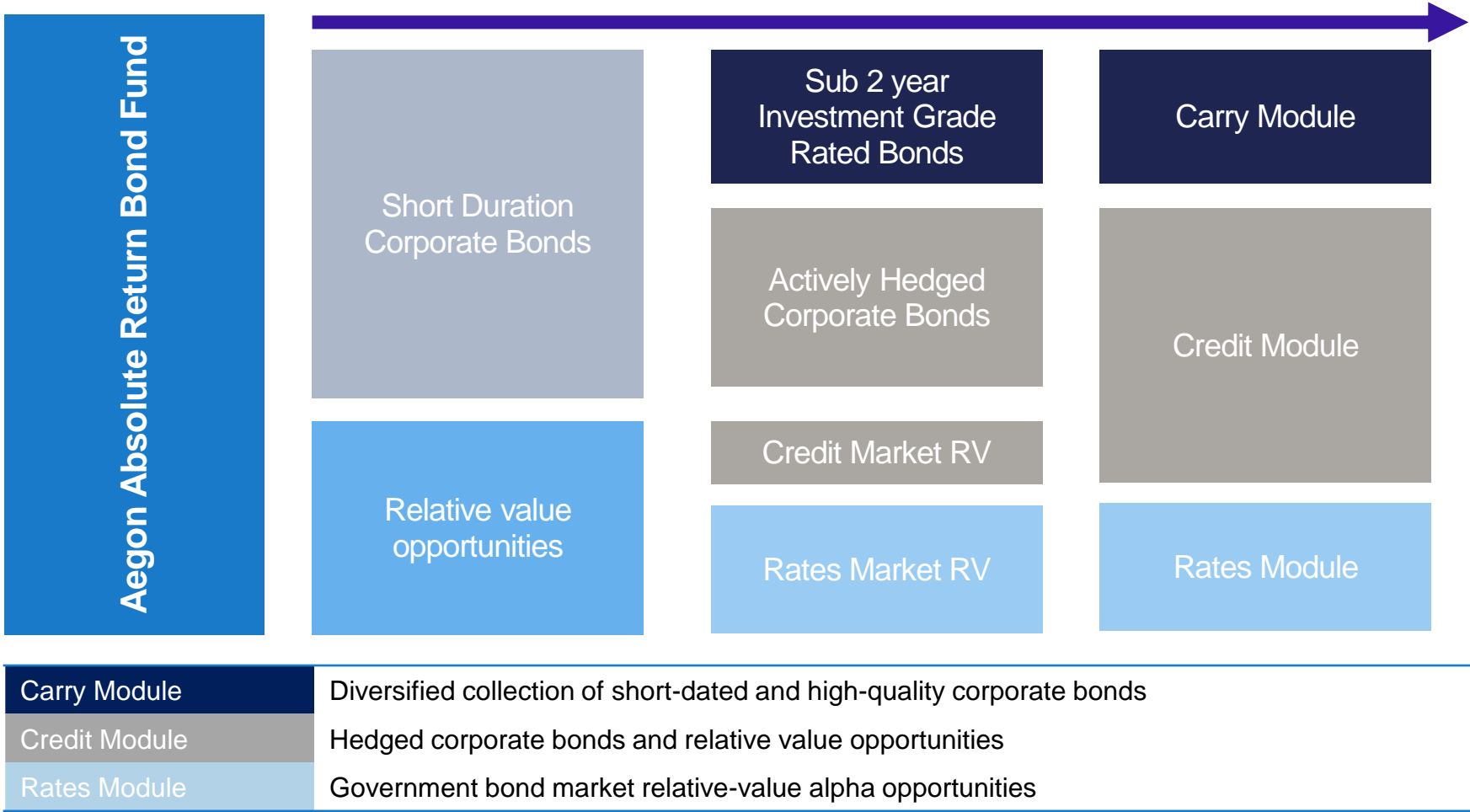
## Which offers investors:

- Consistent returns across all market conditions
- With a key focus on capital preservation
- Low correlation to other fixed income markets



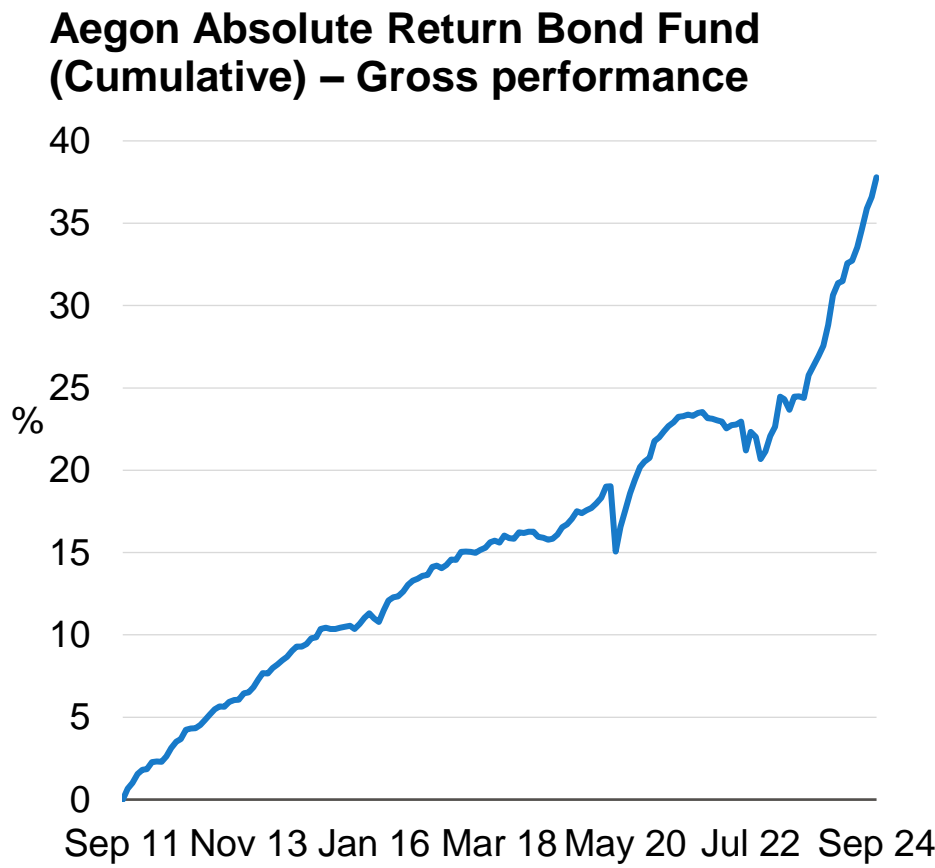
# Aegon Absolute Return Bond Fund – Overview

Investment in short-dated bonds blended with relative value opportunities



# Consistent, incremental absolute returns

Past performance does not predict future returns. The information is for informational purposes and readers should not assume that investments in the securities identified and discussed were or will be profitable.



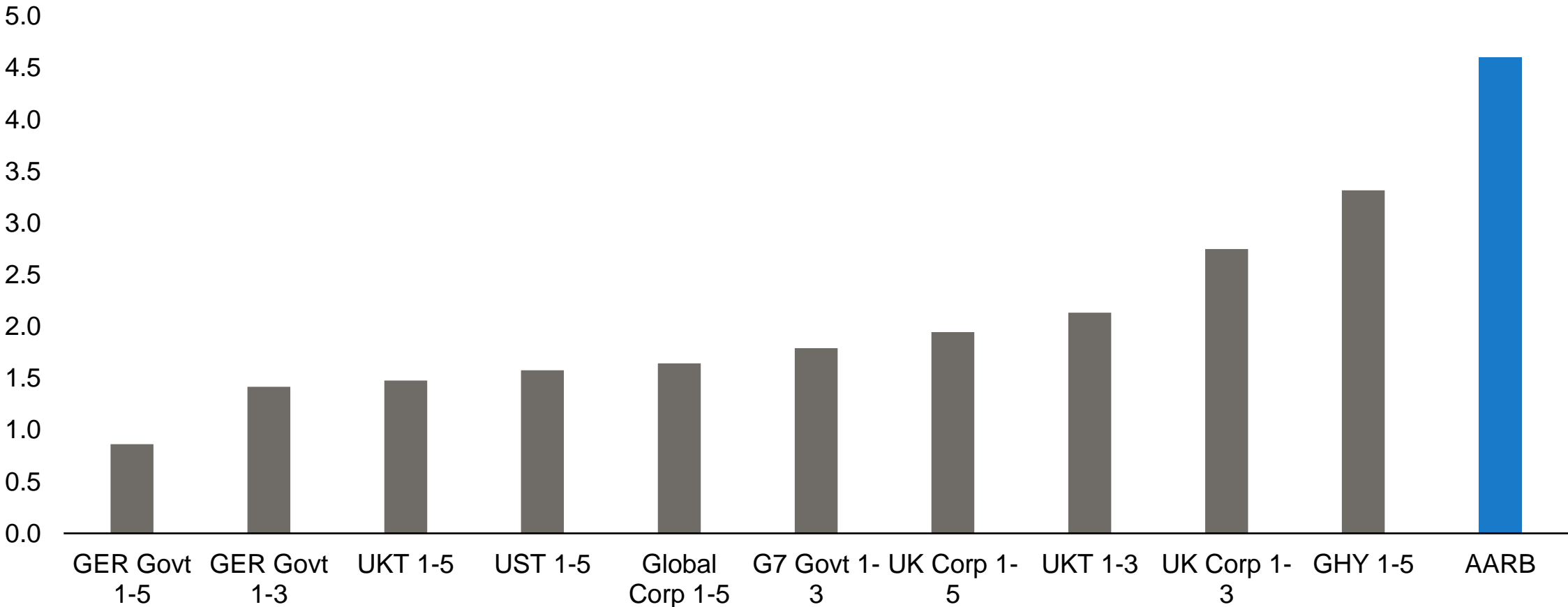
## Total since launch

Fund return (p.a)	2.50%
Best quarter (Q2 2020)	3.07%
Worst quarter (Q1 2020)	-2.76%
Up quarters	44/52 (85%)
Down quarters	8/52 (15%)
Maximum Drawdown (monthly)	-3.33%
Volatility	1.62%
Sharpe Ratio	0.85

Source: Lipper as at 30 September 2024. NAV to NAV, noon prices, income reinvested, excluding entry or exit charges. Aegon Absolute Return Bond Fund B (Acc) GBP shares. Returns are gross. Risk statistics based on annualised gross monthly returns. Inception: 30 September 2011.

# Compelling risk/reward vs cash alternatives

Yield per unit of duration risk



Source: Aegon AM, Bloomberg, as at 31 July 2024. Aegon Absolute Return Bond Fund B (Acc) GBP shares for 'AARB' and the following indices in local currency: ICE BofA 1-5 Year German Government 'GER Govt 1-5'; ICE BofA 1-3 Year German Government for 'GER Govt 1-3'; ICE BofA 1-5 Year UK Gilt for 'UKT 1-5'; ICE BofA 1-5 Year US Treasury for 'UST 1-5'; ICE BofA 1-5 Year Global Corporate for 'Global Corp 1-5'; ICE BofA 1-3 Year G7 Government (USD) for 'G7 Govt 1-3'; ICE BofA 1-5 Year Sterling Corporate for 'UK Corp 1-5'; ICE BofA 1-3 Year UK Gilt for 'UKT 1-3'; ICE BofA 1-3 Year Sterling Corporate 'UK Corp 1-3'; Bloomberg Global High Yield (USD) for 'GHY 1-5'.

# Critical focus on liquidity management

## Time to liquidate positions

Strategy	Fund Name	1 day	< 5 days	5 - 30 days	> 30 days
Absolute Return Bonds	Aegon Absolute Return Bond Fund	97%	100%	100%	100%

## Offering daily liquidity is achieved across a range of measures:

- Invest in short-dated bonds with daily observable and transparent prices
- Minimum of 5% cash held at all times
- Minimum 20% held in sub-2yr bullet maturity bonds (Carry Module)
- Liquidity regularly assessed via 3<sup>rd</sup> Party data sources
- Fund has consistently offered daily liquidity including times of market stress
- UK LDI crisis, Covid Pandemic, Brexit vote, European Sovereign Crisis
- In these periods, investors used fund to access liquidity unavailable elsewhere

Source: Aegon Asset Management, as at 30 June 2024. The table above shows the percentage of the respective fund that could be liquidated in the time-period specified. The liquidity figures in the table are based on normal market conditions which are typically measured from the “bid” side.

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Performance comparator: Investment Association Strategic Bond Sector. Investors are invited to compare the Fund's performance against the performance of other funds within this Sector. Comparison of the Fund against this Sector will give investors an indication of how the Fund is performing compared with Funds investing in a similar but not identical investment universe. The comparison should be performed over at least a 7 year period to provide the most useful long term comparison.

General references to markets and indices are to be considered as general market commentary only and (i) are not to be considered as a comparison of fund performance against a benchmark; and (ii) the index or indices do not operate as a performance target and the fund's portfolio is not constrained by the index or indices.

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